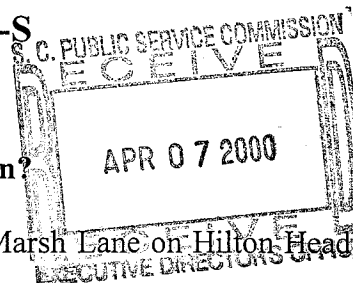


**TESTIMONY OF R. ARNOLD ELLISON, JR.
T. J. BARNWELL UTILITY, INC.
SCPSC DOCKET #1999-346-S**

POSTED
04-7-00



Q. Please state your name and address for the Commission?

A. My name is R. Arnold Ellison and I reside at 23 Long Marsh Lane on Hilton Head South Carolina, 29928.

Q. By whom are you employed and in what capacity?

A. I recently retired from TSG Water Resources, Inc., a Georgia Corporation that owns and operates water and sewer utilities and provides professional services in management, operation and consulting services to private and governmental water and sewer utilities. Prior to retirement I was the Executive Vice President of TSG Water Resources and served as Chief Operating Officer. I am also a professional engineer licensed in the State of South Carolina and have prepared several case studies for private water and sewer utilities that have been presented before this Commission.

Q. What is your association with T. J. Barnwell Utility?

A. I have been retained by T. J. Barnwell Utility to prepare the rate study for submission to the SC Public Service Commission and to represent the technical aspects of the study before the Commission at this hearing.

Q. To whom does T. J. Barnwell Utility provide service?

A. T. J. Barnwell provides sewer service only to the residents of Pleasant Point Plantation located on Ladys Island in Beaufort County. The utility presently serves 102 residential and one commercial customer and has sewer service available to another 100 lots. New development that started in 1999 and will continue over the next several years will eventually expand the customer base to approximately 350 residential units.

Q. Does T.J. Barnwell Utility provide water service?

A. No. The Beaufort Jasper Water & Sewer Authority provides the water to Pleasant Point Plantation.

Q. What was the reason for the prepared sewer rates requested?

RETURN DATE: *04/07/00*
SERVICE: *OK (Bee)*

- A. The operating revenues and expenses for the test year 1998 showed a net loss of \$46,811 from a gross income of \$48,655 that gave a negative operating margin of (96.2) percent.

Sewer service has been provided to the residential and commercial customers at a fixed rate. The rates last approved by the SC Public Service Commission in 1992 were not adequate to cover the operating expenses of the utility. In fact, sewer availability charges imposed on vacant lots by deed restrictions are \$20.00 per month while sewer rates approved by the PSC were only \$18.00 per month. This has caused the utility to experience a loss in revenue every time a new customer has been added.

Over the past several years the previous owner of the utility spent in excess of \$100,000 on the wastewater treatment plant in an effort to meet DHEC permit limits, but failed in those efforts. Since the present owners took possession a commitment was made to upgrade the treatment plant and collection system. This work has involved total refurbishing the treatment plant with new blowers, diffusers, controls and a larger clarifier. They have also built a new 7-day holding pond and a new irrigation pump station for effluent disposal on the adjacent golf course.

As for the collection systems, four pump stations have been completely replaced and numerous repairs have been made to the sewer mains to stop infiltration of ground water into the system.

This work has totaled over \$730,000.

For the test year the Utility had total expenses of \$95,466 (net of any depreciation). Had this amount been covered by the 97 customers connected in 1998, each would have had to pay \$82.00 per month. But, with the improvements that have been made, the operating expenses have been adjusted down by \$36,600. Correspondingly the depreciation on the new improvements added \$28,830 to the operating expenses of the utility. After all adjustments were made the annual operating expenses for the test year totaled \$94,467.

The treatment plant upgrade provides an expanded capacity from 100,000 gallons per day to 120,000 gallons per day. The rate base therefore incorporated only 83.39% of the treatment plant upgrade while the developer of the property is in effect contributing the 16.7% share for new development. The pump stations and collection system upgrades are required for the present customers so 100% of the depreciation for these capital improvements are used in the rate base.

With an operating margin of 10% the required annual revenue is \$104,200.

For the 97 customers the average rate per customer would be \$89.51 per month.

If the availability charges of \$20.00 per month for the 100 vacant lots are pledged to cover operating expenses, the revenue requirement from customers is reduced by \$24,000. This will lower the user rate to \$68.89 per month. Such a rate would be an increase of 283% over the present rate of \$18.00 per month.

The owner has elected to seek a rate that will at least cover the operating expenses of the utility, net of depreciation. In this case the revenues would have to equal at least \$65,638. For the 97 customers the rate would need to be \$56.39 per month. If the availability charges of \$24,000 are included in the revenue, then the rate would need to be \$35.77 per month. Our recommendation has been to set a new rate at \$36.00 per month reflecting a 100% increase, adequate to cover operating expenses.

Q. Does this conclude your testimony?

A. Yes.